CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 16, 1999

A bill to extend the Generalized System of Preferences

As ordered reported by the Senate Committee on Finance on June 22, 1999

SUMMARY

The bill to extend the Generalized System of Preferences (GSP) would extend these trade preferences, which expired on June 30, 1999, through June 30, 2004. In addition, the legislation would amend the Internal Revenue Code to prohibit the use of the installment method of accounting and modify the pledge rule for dispositions of property. The bill also would change procedures for the entry of goods into the United States through foreign trade zones. CBO and the Joint Committee on Taxation (JCT) estimate that enacting this bill would increase revenues by $16 million and increase direct spending by $12 million over the 1999-2004 period. Because the bill would affect revenues and direct spending, pay-as-you-go procedures would apply.

The bill contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments. The legislation contains a private-sector mandate that would prohibit the use of the installment method of accounting and modify the pledge rule for dispositions of property. JCT estimates that the costs of the mandate would exceed the threshold for private-sector mandates established in UMRA ($100 million in 1996, adjusted annually for inflation) in fiscal years 2000 through 2004.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill is shown in the following table. In addition to affecting revenues, the bill would affect spending in budget function 750 (administration of justice).

	By Fiscal Year, in Millions of Dollars					
	1999	2000	2001	2002	2003	2004
CHANGES IN REVENUES						
Extension of the GSP	0	-438	-360	-373	-393	-313
Repeal Installment Method of Accounting; Adjust Pledge Rules	4	477	677	406	257	72
Total Change in Revenues	4	39	317	33	-136	-241
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	a	3	3	3	3
Estimated Outlays	0	a	3	3	3	3

a. Less than $500,000.

Sources: Congressional Budget Office and Joint Committee on Taxation.

BASIS OF ESTIMATE

Revenues

GSP affords nonreciprocal tariff preferences to approximately 140 developing countries to aid their economic development, and to diversify and expand their production and exports. Generally, duty-free treatment of imported goods from GSP-designated developing countries is extended to products that are not competitive internationally. The bill would renew GSP, which expired on June 30, 1999, through June 30, 2004. Taxpayers could apply for refunds for the period since July 1, 1999.

This estimate is based on projections of U.S. imports and recent data on collections from beneficiary countries under the GSP program. The estimate of the revenue loss from extending the existing GSP program was based on recent trade data on imports for U.S. consumption of goods from eligible countries. CBO assumed that GSP imports would remain a constant portion of total imports. Losses of revenues from customs duties were projected using a trade-weighted duty rate adjusted for tariff reductions scheduled by the World Trade Organization (WTO). Assuming an October 1, 1999, enactment date, CBO estimates that renewing GSP would reduce governmental receipts by $438 million in fiscal year 2000 and by $1,877 million over the 2000-2004 period, net of payroll and income tax offsets.

The Joint Committee on Taxation estimated the revenue impact of repealing the installment method of accounting and modifying the pledge rule for distributions of property.

Direct Spending

This legislation would permit importers to file a weekly entry for certain merchandise entered into the United States through a foreign trade zone (FTZ). Under current law, most entries must be made on a daily basis. For each entry, an importer must pay a merchandise processing fee to the Customs Service equal to 0.21 percent of the value of the merchandise, up to $485. For users of FTZs that enter large quantities of goods more than once a week, this provision would lower the amount of fees paid to the Customs Service. Because there are relatively few major importers in FTZs, CBO estimates that the loss of fees from current users of FTZs would total less than $500,000 annually.

Under current law, a firm's decision to use an FTZ involves many variables, including proximity to a zone, potential savings in Customs duties paid on products manufactured in a zone, and the cost and time required for the FTZ approval process. CBO expects that enacting this legislation would prompt some firms to use FTZs in order to reduce their payment of merchandise processing fees. The 1,000 largest importers account for more than half of all entries and would seem most likely to utilize FTZs because they could achieve the greatest savings. In some cases, savings to importers could total about $100,000 annually, depending on the frequency and size of entries under current law. Assuming that 30 companies, or just 3 percent of the largest 1,000 importers, join FTZs and save an average of $100,000 annually in merchandise processing fees, the government would lose about $3 million a year in fees (which are classified as offsetting receipts). If more companies choose to use FTZs, then the costs (from forgone fees) would be greater. Because the approval process for using an FTZ could take about a year in many cases, any significant loss of fees probably would not occur until fiscal year 2001.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting receipts or direct spending. The net changes in governmental receipts and outlays are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in receipts	4	39	317	33	-136	-241	8	21	35	48	62
Changes in outlays	0	0	3	3	3	3	3	3	3	3	3

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

The bill contains no intergovernmental mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The legislation contains a private-sector mandate that would prohibit the use of the installment method of accounting and modify the pledge rule for dispositions of property. JCT estimates that the mandate would cost $1.9 billion over the 2000-2004 period, and that the costs would exceed the threshold for private-sector mandates established in UMRA ($100 million in 1996, adjusted annually for inflation) in fiscal years 2000 through 2003.

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